

AR54

**Centurion Equities
Corporation**



1978 Annual Report



Centurion Equities Corporation

166 Norfinch Drive
Downsview, Ontario M3N 1V6
416/661-6500

Board of Directors:

Nathan Goodman
Irving B. Goodman
David Plener
W. Scott Brown
Tully Grief

Officers:

Nathan Goodman
Chairman of the Board
Irving B. Goodman
President & Chief Executive Officer
W. Scott Brown
Vice-President & Chief Operations Officer
Alan Alber C.A.
Secretary
David Plener
Vice-President — Recycling Operations
Irving Balaban
Vice-President — Automotive Operations
Alexander Menzies
Vice-President — Automotive Marketing

Auditors:

Soberman, Isenbaum & Colomby
Toronto, Ontario

Legal Counsel:

Goodman & Goodman
Toronto, Ontario

Banker:

Canadian Imperial Bank of Commerce

Transfer Agent and Registrar:

Royal Trust Company
Toronto, Ontario

Head Office:

166 Norfinch Drive
Downsview, Ontario

Stock Exchange Listing:

Toronto Stock Exchange (CEC)

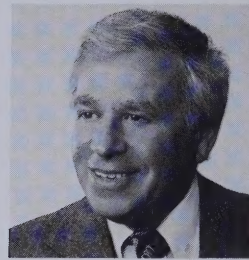


**Centurion Equities
Corporation**

166 Norfinch Drive
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416/661-6500



Irving B. Goodman
President



Nathan Goodman
Chairman of the Board

April 9, 1979

To The Shareholders

Your company is committed to establishing itself as a major industrial corporation. The first giant step in this direction was the acquisition of Doehler Canada Limited on September 30, 1978. The Doehler operation fits all our criteria as part of a programme by management to change your company into an industrial enterprise.

We are pleased, that along with this acquisition we acquired expert management in the aluminum die casting manufacturing area, in particular Mr. W. Scott Brown.

The 10 month period ended October 31, 1978 had a net loss of \$219,319. We have turned this situation around. The current quarter's results are profitable and have been included with this mailing of our annual report. At present, all divisions are contributing to profits and we expect this trend to continue.

As part of our arrangement with Enterprise Development Board for their assistance in obtaining the necessary financing for the purchase of Doehler Canada Limited, the Company was obliged to raise \$3,000,000 in equity capital. This condition has now been fulfilled. Our capital expansion programme is geared towards growth in the aluminum industry which ties in directly to energy conservation. At this writing the Amcan Alloys Division and the Amcan Castings Division are at full capacity and current production is sold out.

sub out
A \$5,000,000 equipment expansion programme for our aluminum divisions is underway and is scheduled for completion in late 1979. This expansion will increase our production capacity by approximately 40% and will contribute a great deal to future profits.

At present we are planning for a new Ontario aluminum recycling plant to provide us with additional required alloys relating to our growth in manufacturing. We will keep you advised of our continuing progress in this area.

We changed our year end from December to October in order that it may better fit in with the business cycle.

② Your management has proven capability in the RECYCLING, MANUFACTURING AND DISTRIBUTION INDUSTRIES and we intend to establish a stronger presence in the immediate future.

We are confident.

Respectfully submitted,

I. B. Goodman
President

Consolidated statement of earnings

For the ten month period ended October 31, 1978

(with comparative figures for the year ended December 31, 1977)

	October 31, 1978	December 31, 1977
Income		
Sales	\$14,160,880	\$8,158,560
Interest and other income	45,000	252,860
	<u>14,205,880</u>	<u>8,411,420</u>
Operating costs and expenses		
Cost of goods sold and other operating expenses except for the following:	13,909,620	8,646,517
Interest on long term debt	214,409	187,931
Depreciation and amortization	295,002	313,541
	<u>14,419,031</u>	<u>9,147,989</u>
Loss from operations before income taxes and extraordinary item	213,151	736,569
Income taxes — current	3,973	1,369
— deferred	278,095	26,880
	<u>282,068</u>	<u>28,249</u>
Loss before extraordinary item	495,219	764,818
Extraordinary item		
Reduction of income taxes due to application of losses carried forward	275,900	24,196
Net loss	<u>\$ 219,319</u>	<u>\$ 740,622</u>
Loss per share (note 7)		
Loss before extraordinary item	.79	1.22
Extraordinary item	(.44)	(.04)
Net loss	<u>.35</u>	<u>1.18</u>

See accompanying notes to consolidated financial statements.

Consolidated statement of retained earnings

For the ten month period ended October 31, 1978

(with comparative figures for the year ended December 31, 1977)

	October 31, 1978	December 31, 1977
Balance, beginning of period	\$1,942,487	\$2,683,109
Net loss	219,319	740,622
Balance, end of period	<u>\$1,723,168</u>	<u>\$1,942,487</u>

See accompanying notes to consolidated financial statements.

Consolidated balance sheet

As at October 31, 1978

(with comparative figures as at December 31, 1977)

	October 31, 1978	December 31, 1977
Assets		
Current		
Accounts receivable	\$ 5,713,964	\$ 1,431,127
Note receivable	—	120,095
Inventories	5,515,988	3,483,282
Income taxes recoverable	218,739	43,059
Prepaid expenses and sundry assets	292,137	217,814
	<u>11,740,828</u>	<u>5,295,377</u>
 Grant receivable (note 2)	 212,600	 212,600
Expropriation receivable — City of Winnipeg	581,954	536,953
Fixed (note 3)	10,797,227	3,827,862
Goodwill	<u>1,741,371</u>	<u>1,780,417</u>
	 <u>\$25,073,980</u>	 <u>\$11,653,209</u>

See accompanying notes to consolidated financial statements.

Auditors' Report

To the Shareholders of
Centurion Equities Corporation

We have examined the consolidated balance sheet of Centurion Equities Corporation as at October 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the ten month period then ended. Our examination of the financial statements of Centurion Equities Corporation and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of a subsidiary.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1978 and the results of its operations and the changes in its financial position for the ten month period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 2, 1979

Soberman, Isenbaum & Colomby
Chartered Accountants

	October 31, 1978	December 31, 1977
Liabilities		
Current		
Bank indebtedness (note 4)	\$ 2,866,593	\$ 3,146,773
Accounts payable and accrued charges	4,375,595	1,426,069
Note payable	591,668	—
Current portion of long term debt	702,679	88,618
	<u>8,536,535</u>	<u>4,661,460</u>
Long term debt (note 5)	11,095,384	1,878,273
Deferred income (note 2)	107,903	152,194
Deferred income taxes	13,188	10,993
	<u>19,753,010</u>	<u>6,702,920</u>
 Shareholders' equity		
Capital stock (note 6)	3,597,802	3,007,802
Retained earnings	1,723,168	1,942,487
	<u>5,320,970</u>	<u>4,950,289</u>
	<u>\$25,073,980</u>	<u>\$11,653,209</u>

Approved on behalf of the board

Nathan Goodman, *Director*
Irving B. Goodman, *Director*

Consolidated statement of changes in financial position

For the ten month period ended October 31, 1978
(with comparative figures for the year ended December 31, 1977)

	October 31, 1978	December 31, 1977
Source of funds		
Loss before extraordinary item	(\$ 495,219)	\$ —
Add charges not requiring funds		
Depreciation and amortization	295,002	—
Deferred income taxes	278,095	—
Funds provided from operations	77,878	—
Increase in long term debt	8,922,066	213,319
Issue of preference shares	590,000	—
Proceeds from disposal of fixed assets	11,481	87,162
Reduction of note receivable	—	120,095
	<u>9,601,425</u>	<u>420,576</u>
Application of funds		
Loss before extraordinary item	—	764,818
Less charges not requiring funds		
Depreciation and amortization	—	313,541
Deferred income taxes	—	26,880
Funds utilized in operations	—	424,397
Purchase of "Doehler Canada Limited", net of current assets acquired of \$2,025,611 (note 10)	6,253,148	—
Additions to fixed assets	676,949	500,034
Repayments of long term debt	—	30,930
Net changes in other assets and liabilities	100,952	118,543
	<u>7,031,049</u>	<u>1,073,904</u>
Increase (Decrease) in working capital	<u><u>\$2,570,376</u></u>	<u><u>(\$ 653,328)</u></u>

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

October 31, 1978

1. Accounting policies

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

a) Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries.

b) Exchange translation

Current assets and liabilities of a United States subsidiary have been translated into Canadian dollars at year end rates of exchange. Other assets and liabilities are translated at historical rates and income and expenses at average rates of exchange during the period. The resulting exchange gains or losses are included in the statement of earnings.

c) Inventories

Inventories have been valued at the lower of cost and net realizable value.

d) Depreciation

The Company records depreciation as follows:

Kind of asset	Basis
Buildings	— 5% and 2% straight line
Equipment and motor vehicles	— at various rates over their estimated useful life.

e) Goodwill

The excess of cost over book value of net assets acquired is being amortized on a straight line basis over forty years.

f) Income taxes

The Company follows the tax allocation method of providing for income taxes. Under this method, the cumulative income tax effect of the timing differences between reported and taxable income is shown on the balance sheet as deferred income taxes. The Company and its subsidiaries are subject to income taxes on an individual, rather than consolidated basis. The Companies have losses carried forward for income tax purposes, aggregating approximately \$3,400,000 which are available for the reduction of future years' taxable income. These losses must be claimed no later than:

Year ending October 31, 1979	\$ 404,000
1980	290,000
1981	394,000
1982	1,257,000
1983	1,055,000

Future income tax recoveries on these amounts have not been recognized in the accounts.

2. Grant receivable

In 1976 a contract was entered into with the Province of Quebec, Department of Industrial Development, whereby the Company constructed and equipped a manufacturing plant for the production of aluminum ingots. Under the terms of the contract, the Province of Quebec will pay the Company, by way of a grant, a maximum of \$212,600 towards the cost of financing the plant.

3. Fixed assets

Fixed assets are classified as follows:

	October 31, 1978		December 31 1977	
	Cost	Accumulated Depreciation	Net	Net
Land	\$ 1,428,818	\$ —	\$ 1,428,818	\$ 407,618
Buildings	5,671,798	147,863	5,523,935	1,857,800
Equipment	3,932,285	324,335	3,607,950	1,342,096
Vehicles	444,286	207,762	236,524	220,348
	<u>\$11,477,187</u>	<u>\$679,960</u>	<u>\$10,797,227</u>	<u>\$3,827,862</u>

4. Bank indebtedness

The bank indebtedness is secured by an assignment of accounts receivable and a fixed and floating charge on all other assets of the Company.

5. Long term debt

Bank loans — secured by a first fixed and floating charge over all the assets, as follows:

(i) Special loan, at prime rate plus 2%, due November 30, 1979	\$1,000,000
(ii) Prime rate plus 1%, payable in 12 consecutive monthly instalments of \$41,666 each commencing January 1, 1979, and followed by 132 monthly instalments of \$49,242, and maturing on December 31, 1990	<u>7,000,000</u> \$8,000,000

Subordinated notes, 12%, payable monthly (to be converted into 80,000 Series "A" preference shares — see note 13)

1,600,000

Note payable, 10%, payable quarter yearly, and maturing on December 31, 1980

1,121,076

Mortgages on real estate, bearing interest at rates varying from 8½% to 9½%, and maturing in various years from 1983 to 1986

665,924

Government grant payable, non-interest bearing, due January 1, 1984, payable in equal annual instalments of \$59,009, commencing January 1, 1980 (secured by the machinery and equipment purchased with grant funds received)

295,045

Other

116,018
11,798,063

Current portion, due within one year

702,679
\$11,095,384

6. Capital stock

October 31 1978 December 31 1977

Authorized
1,000,000 preference shares, with a par value of \$20 each, issuable in series
5,000,000 common shares, without par value

Issued

29,500 Series "A" preference shares, 8% cumulative, redeemable after 1989, non-voting, convertible on or before December 31, 1989 into 4 common shares and thereafter into 2 2/3 common shares
\$ 590,000 —

626,607 common shares
3,007,802 3,007,802
\$3,597,802 \$3,007,802

Employee stock option plan

The Company has reserved 11,000 authorized but unissued common shares for its Stock Option Plan which provides for the granting to officers and key employees, options to purchase common shares of the Company at a price per share of not less than 90% of the market price at the day prior to granting. In addition, the Company has granted an option to one of its key senior employees to acquire 25,000 common shares of the Company at \$3 per share. This option expires in 1983.

Employee share purchase plan

The Company has reserved 27,500 authorized but unissued common shares for its Share Purchase Plan for officers and key employees who may purchase fully paid treasury shares at a price not less than market value at the time of purchase.

7. Loss per share

Loss per share has been calculated based upon the number of common shares outstanding at the end of the period.

Notes to consolidated financial statements (cont'd.)

October 31, 1978

8. Remuneration of directors and senior officers

The aggregate direct remuneration paid to directors and senior officers amounted to \$230,400 for the current period and \$294,000 for the year ended December 31, 1977.

9. Pension plans

No provision has been made in the accounts for unfunded past service pension costs, which at October 31, 1978 amounted to \$1,270,000. This is being funded by annual payments over the next 15 years.

10. Acquisition

Effective September 30, 1978, the Company acquired for cash, all of the outstanding common shares of Doehler Canada Limited. This acquisition has been accounted for on a purchase basis and the results of operations have been included in these statements from that date. Details of this acquisition are as follows:

Assets acquired	
Current	\$6,109,951
Fixed	<u>3,059,652</u>
	\$9,169,603
Less	
Current liabilities	4,084,340
Long term debt	<u>295,045</u>
	<u>4,379,385</u>
	<u>4,790,218</u>

Excess of the purchase price over book value of net assets acquired has been allocated as follows:

Land	934,111
Buildings	<u>2,554,430</u>
	<u>3,488,541</u>

Cost of acquisition \$8,278,759

11. Amalgamation

On October 31, 1978, Centurion Equities Corporation amalgamated with two of its wholly-owned subsidiaries, Keyes Supply Company Limited and Doehler Canada Limited, to continue as Centurion Equities Corporation.

12. Contractual Obligation

In October 1978, the Company entered into an agreement to purchase certain heavy machinery. The purchase price is \$2,200,000 and is payable by Letter of Credit on or before September 30, 1979.

13. Subsequent Events

On January 31, 1979, the \$1,600,000 subordinated notes payable were converted into 80,000 Series "A" preference shares of the Company. In addition, in December 1978 and February 1979, 25,250 Series "A" preference shares were subscribed for and issued for a total consideration of \$505,000.

14. Anti-Inflation Act

Under the Anti-Inflation Act, the Company is subject to restriction on dividends and may also be subject to restraint on increases in profit margins and employees' compensation. Management believes the Company has complied with the appropriate guidelines established by the Anti-Inflation Board during the period ended October 31, 1978.

